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SIPDIS

DEPARTMENT FOR EUR/AGS

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SUBJECT: Frankfurt Worries About Its Economic Future

REF: Frankfurt 2147

Sensitive but unclassified; not for Internet distribution.

¶1. (SBU) SUMMARY: Recent developments including the failure of the Frankfurt-based German Stock Exchange to take over its London counterpart have sparked concerns over the economic future of the Frankfurt/Rhein-Main area in comparison to other European metropoles. With slow growth in the area's traditional strongholds (finance and transportation) and trailing some other cities in high technology, Frankfurt remains a competitive location for business but is losing ground relative to other European cities. City leaders are working to diversify the Rhein-Main region's economic base by strengthening its nascent biotech and IT/media sectors. While proposals abound, decisive action is unlikely until after local elections in early 2006. END SUMMARY.

¶2. (U) The shake-up at the German Stock Exchange in Frankfurt (which recently failed to take over the London Stock Exchange) comes in the midst of growing concerns over Frankfurt's future as a financial and business center. Consulting firm Cushman-Wakefield-Baker's 2004 study of the 30 most competitive European cities (European Cities Monitor) forecasts that Frankfurt will fall from third place overall today (behind London and Paris) to number 11 by **¶2009**. A December 2004 study comparing leading economic regions in Europe and the U.S. (conducted by the Rhein-Main Economic Development Initiative) names Frankfurt as Europe's top location in terms of transport accessibility and second in economic weight, but only in twentieth place when it comes to the quality of higher education (an important factor for high technology). As Europe's "skyline" city, Frankfurt's slow growth is visible in high vacancy rates and the inability to move forward on two large building projects -- the "Osthafen" development surrounding the planned European Central Bank tower and the Millennium-Tower/Europaviertel next to Frankfurt's main train station.

¶3. (U) Business and political leaders are well aware of the long-term challenges facing Frankfurt. While arguably on par today with Munich as Germany's two leading economic regions, the Rhein-Main area's heavy dependence on finance and the Frankfurt Airport poses risks given the difficulties both sectors have faced in recent years. Employment in Frankfurt's banking sector is shrinking (though banks still employ 80,000 people in the area). While city authorities are promoting information technology (IT) and biotechnology in attempt to diversify the area's economic base, others question spending large sums on diversification and say that Frankfurt should focus on maintaining its leading position in financial services and transportation, since those sectors are key to creating demand (and comparative advantage) in other businesses.

¶4. (U) Frankfurt trails German bio-tech centers in Munich and Berlin/Brandenburg but has heavily invested in biotechnology in an effort to shore up its once-large chemical and pharmaceutical sectors (which still employ 22,000 people). Data supplied by the Frankfurt Chamber of Commerce show that Munich is more economically dynamic than Frankfurt (particularly in high-tech manufacturing and management consulting) but Frankfurt has made some progress in the IT sector, doubling the number of employees from 1998 to 2003 (to 16,000). Today one third of the Germany's large IT and telecommunication service providers are located in Frankfurt; four-fifths of Germany's Internet traffic (and a third of Europe's web traffic) are routed through Frankfurt. One of Europe's leading trade fair venues, Frankfurt is host to several of the world's largest trade shows but must continually compete for their business.

¶5. (U) Frankfurt's future as Europe's leading transportation hub depends on the expansion of Frankfurt airport, Germany's largest and arguably the most important in Europe in terms of combined freight/passenger traffic. Centrally located and highly accessible (next to Europe's most-traveled highway intersection and near Europe's busiest train station), the airport is reaching the limits of its present infrastructure (which can support about 50 million annual passengers). A new runway -- which could boost that

capacity to 80 million -- was originally slated to open in 2006 but will now come into service in 2008 at the earliest (legal challenges are still pending and construction has not yet begun). Frankfurt airport is Germany's largest workplace with direct employment of 65,000 people (and indirectly another seventy thousand); expansion would create up to 100,000 new jobs according to airport authority Fraport (this figure is disputed). According to the head of Frankfurt's Economic Development Authority, Hartmut Schwesinger, further delay in airport expansion would have serious negative consequences for Frankfurt's financial services sector and other businesses. Airport authorities appear cautiously optimistic: the city of Frankfurt and the state of Hesse back expansion, and the tough economic climate has softened resistance to the project.

COMMENT

16. (SBU) Frankfurt remains Germany's most productive economic area in per capita terms (the Rhein-Main region produces 9% of Germany's GDP in an area representing only 4% of the country's territory) and has comparative advantages through a financial and transportation infrastructure unmatched on the European continent. With limited resources -- Frankfurt is Germany's most indebted city per capita (excluding "city-states" such as Berlin and Hamburg) -- the city will be hard-pressed to invest heavily in diversification, suggesting that it will remain concentrated in finance and transportation with modest growth in related service sectors such as insurance, consulting, and media/public relations. Frankfurt's PR and media sectors (especially post-production) are growing; its nascent insurance sector may expand with the city's selection to host the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), the likely nucleus for a future EU-level supervisory agency.

17. (SBU) Frankfurt officials say privately that the city's biggest problem is political stalemate under a loose coalition of the four major parties and local election rules which favor small parties and independents (absent the five-percent threshold which applies in state and national elections). Political insiders hope for a decisive outcome in spring 2006 local elections (REFTEL). By most signs, "Mainhattan" must work harder to defend its claim as economic center to an expanding Europe. END COMMENT.

18. (U) NOTE: the European Cities Monitor 2004 study is available at:

<http://www.frankfurt.de/sixcms/media.php/2000/CitiesMonitor2004.pdf>

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